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OFFICE OF FINANCIAL AND INSURANCE SERVICES
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BILL ANALYSIS

BILL NUMBER: House Bill 4792 (H-1)
TOPIC: Provide for medical fee schedules for medical costs paid by personal injury protection
SPONSOR: Representative Virgil Smith
CO-SPONSORS: Representative Joe Hune
COMMITTEE: House Committee on Insurance
Analysis Done: July 25, 2007

POSITION

The Office of Financial and Insurance Services supports the H-1 version of this legislation.

PROBLEM/BACKGROUND

A Michigan no-fault policy contains three mandatory coverage components: personal injury protection (PIP), property protection (PPI) and residual bodily injury and property damage liability insurance (BI/PD). PIP provides unlimited coverage for all reasonable necessary medical, hospital and rehabilitation expenses related to an auto accident. A serious accident can result in hundreds of thousands of dollars of expenses, including home and auto modification expenses (to accommodate a wheelchair, for instance), wage loss benefits for up to three years, and vocational classes (should the injuries require the person to be trained for a new job) for the insured and any passenger without their own insurance.

The Insurance Code contains no limit on the amount of medical benefits to which a seriously injured auto accident victim is entitled. Currently, providers may submit reasonable charges for products, services and accommodations rendered.

As medical costs have increased substantially over the years, insurers and providers have faced substantial pressure to contain costs, and consumers have faced ever increasing premiums. As consumers have faced mounting insurance costs, some have opted out of the system altogether, exposing themselves to legal and financial liability and contributing to the cost of uncompensated care carried by the health care system.

One way to reduce medical costs is to limit the amount paid to medical care providers by establishing a schedule of payments for goods or services rendered. The imposition of a fee schedule has effectively reduced costs in the Workers Compensation system.

DESCRIPTION OF BILL

The proposed legislation would provide for the establishment of fee schedules to be used for reimbursement of personal injury protection (PIP) benefits under no-fault. The fee schedules would be based upon the current workers' compensation fee schedule.

SUMMARY OF ARGUMENTS

Pro

The proposed legislation may provide insurance companies with the ability to streamline their claims process and to reduce the cost of PIP claims. Requiring health care providers to utilize a fee schedule in which the costs of providing specific services are clearly defined will eliminate delays in claims processing and ensure that reimbursement is consistent from provider to provider.

Insurance fraud remains an increasing cost to the no-fault system. Requiring all health care providers to utilize the same fee schedule may help reduce fraudulent over billing of PIP claims.

If effective cost controls such as a fee schedule are put in place, insurers should see a significant reduction in the amount paid out in PIP claims. As less money is required to pay claims, insurance consumers should see a corresponding drop in insurance rates. According to a recent actuarial study by Epic Consulting that was commissioned by the Insurance Institute of Michigan, use of the fee schedule, which includes a limitation on attendant care benefits to 8 hours per day/7 days per week, had the potential for a 34.1% PIP premium reduction.

The H-1 version adopts the Workers Compensation Fee Schedule for use in the no fault auto arena and does not require the OFIS Commissioner to develop a specific fee schedule for use in the auto no-fault system. This is a significant improvement over the introduced version of the bill, which would have resulted in a significant duplication of effort between OFIS and the Workers Compensation Agency.

Con

Providers facing significantly lower reimbursement for no-fault auto cases may be forced to restrict the number of non-emergency no-fault patients that they are willing to treat. This may cause circumstances where patients, particularly in less populated regions of the state, have difficulty obtaining access to specialized medical providers.

Providers may try to bill policyholders for the difference between what the provider normally charges and the amount permitted for reimbursement under the fee schedule. This type of cost

shifting may result in consumer dissatisfaction and create additional stresses within the no-fault system.

There may be some instances where alternative treatments and/or services may not be specifically recognized in the fee schedule.

FISCAL/ECONOMIC IMPACT

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services:

Budgetary: .

Revenue:

Comments:

(b) To the Department of Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

None known.

ANY OTHER PERTINENT INFORMATION

None known.

ADMINISTRATIVE RULES IMPACT

This proposed legislation would amend the Insurance Code of 1956, 1956 PA 218. OFIS has general rulemaking authority under the Insurance Code of 1956.



Linda A. Watters
Commissioner

7-25-07

Date